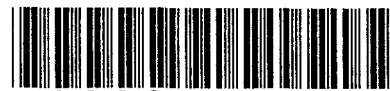


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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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COMMISSIONERS

SUSAN BITTER SMITH, Chairman
BOB STUMP
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TOM FORESE

IN THE MATTER OF THE APPLICATION
OF SOUTHWEST ENVIRONMENTAL
UTILITIES, L.L.C. FOR APPROVAL OF A
CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE WATER AND
WASTEWATER SERVICES IN PINAL
COUNTY, ARIZONA.

DOCKET NO. WS-20878A-13-0065

**CLOSING BRIEF OF SOUTHWEST
ENVIRONMENTAL UTILITIES, L.L.C.**

Following the May 11, 2015, hearing in this case, the administrative law judge directed the parties to submit legal briefs on the hook-up fees ("HUFs") requested by Southwest Environmental Utilities, L.L.C. ("SEU" or the "Company") and addressing any dockets where the Arizona Corporation Commission ("Commission") has approved HUFs in connection with a new certificate of convenience and necessity ("CC&N"). The judge also asked the parties to discuss how HUFs were addressed in Docket WS-02987A-08-0180 regarding Johnson Utilities, L.L.C. ("Johnson Utilities").

In this case, SEU requested approval of wastewater HUFs starting at \$1,000 for a 4-inch sewer lateral and water HUFs starting at \$600 for a 5/8-inch x 3/4-inch meter. Staff has opposed the HUFs on the grounds that Staff does not recommend HUFs for new CC&Ns.¹ However, the Commission previously approved water and wastewater HUFs as part of the original grant of a CC&N to SEU's sister company Johnson Utilities in Decision 60223 (May 27, 1997).² In that decision, the Commission rejected Staff's recommendation against HUFs and approved HUFs starting at \$750 for water and \$1,000 for wastewater.³

In Johnson Utilities' 2008 rate case, the Commission briefly eliminated the HUFs in Decision 71854 (August 25, 2010) but subsequently reinstated the HUFs in Decision 72579 (September 15, 2011).⁴

¹ Staff Report (Docket WS-20878A-13-0065) dated April 28, 2015, at 5.

² See Consolidated Dockets Nos. WS-02987-95-0284 and WS-02987-95-0285.

³ Decision 60223 at page 11, lines 5-7.

⁴ See Docket WS-02987A-08-0180.

Arizona Corporation Commission

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Johnson Utilities' HUFs for water and sewer are as follows:

| Water Hook-Up Fees—Johnson Utilities ⁵ | |
|--|-------------|
| Meter Size | HUF Amount |
| 5/8-inch x 3/4-inch | \$750.00 |
| 3/4-inch | \$900.00 |
| 1-inch | \$1,500.00 |
| 1-1/2-inch | \$3,000.00 |
| 2-inch | \$4,800.00 |
| 3-inch | \$9,000.00 |
| 4-inch | \$15,000.00 |
| 6-inch | \$30,000.00 |
| Wastewater Hook-Up Fees—Johnson Utilities ⁶ | |
| Service Later Size | HUF Amount |
| 4-inch | \$1,000.00 |
| 6-inch | \$2,000.00 |
| 8-inch or greater | \$4,000.00 |

At the hearing in this case, SEU witness Brad Cole testified that “hook-up fees are important for both new and established utilities because they help keep rates lower, and it helps mitigate the risk of building the backbone plant, and it puts a proportionate share of the responsibility on the developer and not on the utility or the ratepayers.”⁷ Mr. Cole continued, “as long as it’s not disproportionate, it’s beneficial for both the utility and the ratepayers.”⁸

Mr. Cole testified that the proposed HUFs would only cover a portion of SEU’s costs of building backbone infrastructure, and that the balance of the costs would be funded by the Company.⁹ As shown on page 3 of the April 21, 2015, Memorandum prepared by Mary Rimback and attached as Attachment C to the Staff Report, SEU would fund 57.5% of the water plant with the proposed water HUF and 67.18% of the wastewater plant with the proposed wastewater HUF.

⁵ See Notice of Filing New and Revised Tariff Sheets (filed 11/10/2011) in Docket WS-02987A-08-0180.

⁶ *Id.*

⁷ Reporter’s Transcript of Proceedings (Docket WS-20878A-13-0065) at 29-30.

⁸ *Id.* at 30, lines 4-6.

⁹ *Id.* at 30, lines 7-12.

1 Thus, the proposed HUFs place a proportionate and appropriate share of building backbone plant
2 on the developers. However, by eliminating the HUFs, Staff would have SEU fund 87.24% of
3 the water plant and 91.50% of the wastewater plant.

4 There is absolutely no analysis underlying Staff's equity percentages. Rather, Ms.
5 Rimback acknowledged that she arrived at the percentages simply by removing the HUFs.¹⁰ Ms.
6 Rimback testified that Staff excluded the HUFs because SEU "needs to be invested,"¹¹ but she
7 agreed that the Company would still have equity invested even with the HUFs, stating that "[i]t's
8 a matter of how much they're going to be invested."¹² Yet, she provided no testimony to support
9 one level of equity versus any other. SEU submits that the equity percentages of 57.5% for water
10 and 67.18% for wastewater, based on the proposed HUFs, are more than adequate for the
11 Company to be invested.

12 Mr. Cole testified that SEU utilized rate accountant Tom Bourassa to help formulate the
13 proposed HUFs,¹³ and that the HUFs are similar to those approved for sister company Johnson
14 Utilities, which he testified is similarly situated to SEU.¹⁴ In fact, as shown in the following table,
15 the only HUFs that differ from Johnson Utilities' approved HUFs are the water HUF for the 5/8-
16 inch x 3/4-inch meter and the water HUF for the 3-inch meter.

| Water Hook-Up Fees—Southwest Environmental Utilities | |
|--|---|
| Meter Size | HUF Amount |
| 5/8-inch x 3/4-inch | \$600.00 (versus \$750 for Johnson Utilities) |
| 3/4-inch | \$900.00 |
| 1-inch | \$1,500.00 |
| 1-1/2-inch | \$3,000.00 |
| 2-inch | \$4,800.00 |
| 3-inch | \$9,600.00 (versus \$9,000 for Johnson Utilities) |
| 4-inch | \$15,000.00 |
| 6-inch | \$30,000.00 |

26 ¹⁰ Reporter's Transcript of Proceedings (Docket WS-20878A-13-0065) at 116-117.

27 ¹¹ *Id.* at 118-119.

28 ¹² *Id.* at 122-123.

¹³ *Id.* at 69, lines 10-17.

¹⁴ *Id.* at 59-60.

| Wastewater Hook-Up Fees—Southwest Environmental Utilities | |
|---|------------|
| Service Later Size | HUF Amount |
| 4-inch | \$1,000.00 |
| 6-inch | \$2,000.00 |
| 8-inch | \$4,000.00 |

Staff agrees with SEU that approving HUFs provides benefits to ratepayers. Staff witness Mary Rimback agreed with the Company on cross examination that the proposed HUFs, if approved, could result in lower rates for customers.¹⁵ Further, Ms. Rimback agreed that HUFs take some of the risk off of ratepayers and place it on developers.¹⁶ In other words, contributions received through HUFs paid by developers reduce a utility's risks related to the potential that the development will not be successful and that the anticipated customer base will not materialize. These are very important benefits of HUFs.

SEU has presented ample reasons why the requested HUFs should be approved. There are clear benefits to ratepayers as discussed herein. Additionally, the proposed level of HUFs ensures that the Company builds sufficient equity so that it is invested in the business. Staff has failed to provide any compelling reasons why the HUFs should be rejected, and states only that it does not recommend HUFs for new CC&Ns. The Commission has previously approved HUFs for a new utility as in the case of Johnson Utilities. For all of these reasons, SEU requests that the proposed HUFs be approved.

Late Filed Tariff on Vaulting and Hauling and Flushing; Language Addressing a CAGR District Adjuster in the Event SEU Subsequently Obtains a Designation of Assured Water Supply

As the parties agreed at the hearing, SEU has prepared a proposed tariff for vaulting and hauling and flushing which has been provided to Staff for review and comment. Likewise, the Company has provided proposed language to Staff which would permit SEU to request a Central Arizona Groundwater Replenishment District adjuster mechanism like those approved for other water companies in the event that SEU seeks and obtains a Designation of Assured Water Supply.

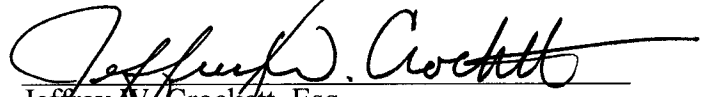
¹⁵ *Id.* at 111, lines 21-25.

¹⁶ *Id.* at 112, lines 10-18.

Both of these items will be filed in the docket as soon as the Company and Staff have reached consensus.

RESPECTFULLY submitted this 12th day of June, 2015.

CROCKETT LAW GROUP PLLC



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ORIGINAL and thirteen (13) copies of the foregoing
filed this 12th day of June, 2015, with:

Docket Control
ARIZONA CORPORATION COMMISSION
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Phoenix, Arizona 85007

COPIES of the foregoing hand-delivered
this 12th day of June, 2015, to:

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